

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	3QCY2015	2QCY2015	% chg (qoq)	2QCY2014	% chg (yoy)
Net sales	553	514	7.5	487	13.4
Other income	42	45	(6.4)	42	1.7
Operating profit	109	86	26.6	76	42.7
Adj. Net profit	73	64	12.9	62	16.9

Source: Company, Angel Research

Sanofi India (Sanofi)'s 3QCY2015 results have come in marginally higher than our expectation. The company posted a 13.4% yoy growth in revenues to ₹553cr V/s an expected ₹536cr. On the operating front, the gross margin came in at 52.0% V/s an expected 48.3% and V/s 48.2% in the corresponding period of last year. The OPM came in at 19.7% V/s an expected 17.8% and V/s 15.7% in the corresponding period of last year. Consequently, the PAT came in at ₹72.5cr (V/s an expected ₹70.0cr), a yoy growth of 16.9%. **We recommend a Neutral rating on the stock.**

Better-than-expected results, mainly on OPM front: The company posted a 13.4% yoy growth in revenues to ₹553cr V/s an expected ₹536cr. We expect revenue growth to sustain in the coming quarters with improvement in volumes along with likely price hikes in DPCO products. On the operating front, the gross margin came in at 52.0% V/s an expected 48.3% and V/s 48.2% in the corresponding period of last year. The OPM came in at 19.7% V/s an expected 17.8% and V/s 15.7% in the corresponding period of last year. Consequently, the PAT came in at ₹73cr (V/s an expected ₹70cr), a yoy growth of 16.9%. Tax as % of PBT was 40.7% V/s 34.0% in 3QCY2014. Other income for the quarter, at ₹42cr, was same as in the corresponding period of last year.

Outlook and valuation: We expect net sales to post a 10.5% CAGR to ₹2,371cr and EPS to register a 33.1% CAGR to ₹151.5 over CY2014–16. At current levels, the stock is trading at 36.0x and 28.1x its CY2015E and CY2016E earnings, respectively. **Given the rich valuations, we recommend a Neutral rating on the stock.**

Key financials

Y E Dec (₹ cr)	CY2013	CY2014	CY2015E	CY2016E
Net Sales	1,707	1,875	2,082	2,371
% chg	14.2	9.9	11.1	13.9
Net Profit	239.8	197.1	272.3	349.0
% chg	35.4	(17.8)	38.2	28.2
EPS (₹)	104.1	85.6	118.2	151.5
EBITDA(%)	17.3	12.6	17.4	20.8
P/E (x)	40.9	49.8	36.0	28.1
RoE (%)	18.8	14.4	19.9	25.5
RoCE (%)	15.7	10.2	18.5	27.9
P/BV (x)	7.3	6.6	5.3	4.2
EV/Sales (x)	5.6	5.0	4.4	3.6
EV/EBITDA (x)	32.3	39.5	25.1	17.4

Source: Company, Angel Research; Note: CMP as of October 27, 2015

NEUTRAL

CMP ₹4,262
 Target Price -

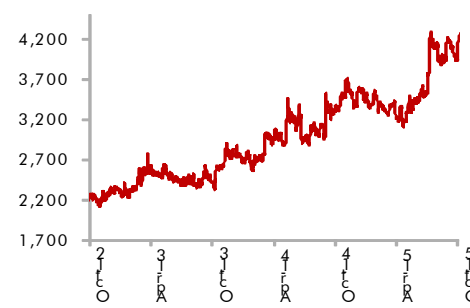
Investment Period -

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	9,816
Net debt (₹ cr)	(239)
Beta	0.4
52 Week High / Low	4,581/3,090
Avg. Daily Volume	2,067
Face Value (₹)	10
BSE Sensex	27,253
Nifty	8,233
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	21.5
FII / NRIs / OCBs	13.0
Indian Public / Others	5.1

Abs. (%)	3m	1yr	3yr
Sensex	(1.1)	1.9	46.3
Sanofi India	12.7	27.4	91.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QCY2015 performance

Y/E Dec (₹ cr)	3QCY2015	2QCY2015	% chg (qoq)	3QCY2014	% chg (yoy)	9MCY15	9MCY14	% chg yoy
Net sales	553	514	7.5	487	13.4	1,527	1,394	9.5
Other income	42	45	(6.4)	42	1.7	152	121	26.0
Total income	595	560	6.4	529	12.5	1,679	1,515	10.8
PBIDT	109	86	26.6	76	42.7	249	211	17.9
OPM (%)	19.7	16.7		15.7		16.3	15.1	
Interest	0.1	0.1		0.0		0	0	
Depreciation & amortisation	29	28	2.1	24	20.8	83	72	15.8
PBT & exceptional items	122	103	18.9	94	30.0	317	260	22.3
Less : Exceptional items	0	0		0		16	0	
Profit before tax	122	103	18.9	94	30.0	301	260	16.1
Provision for taxation	50	39	28.8	32	55.3	116	88	31.9
Net profit	73	64	12.9	62	16.9	185	171	8.3
Adj net profit	73	64	12.9	62	16.9	169	171	(1.2)
EPS (₹)	31.5	27.9		26.9		73.5	74.4	

Source: Company, Angel Research

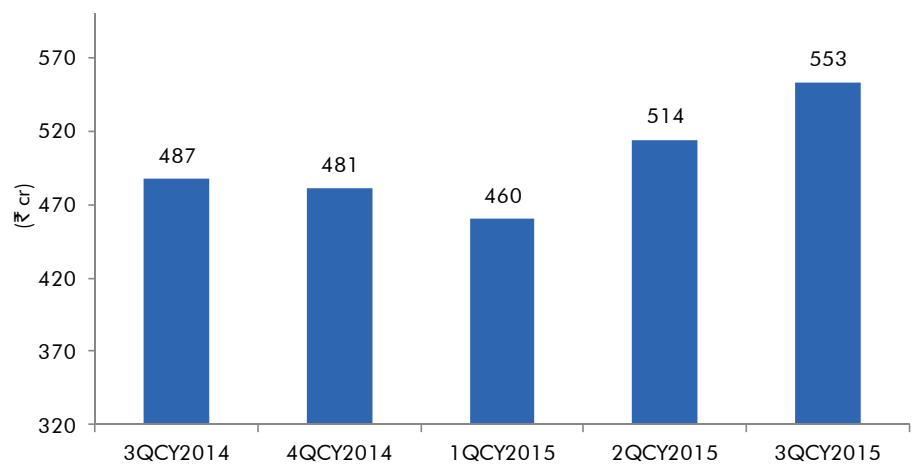
Exhibit 2: 3QCY2015 – Actual Vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net sales	553	536	3.1
Other income	42	42	1.7
Operating profit	109	95	14.2
Tax	50	39	28.8
Net profit	73	70	3.6

Source: Company, Angel Research

Revenue growth higher than expectation

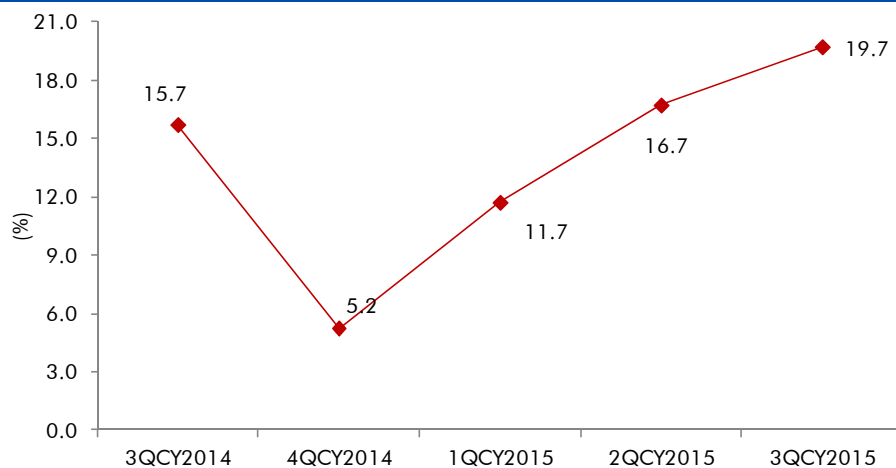
The company posted sales of ₹553cr (V/s an expected ₹536cr), a yoy growth of 13.4%. We expect revenue growth to sustain in the coming quarters with improvement in volumes along with likely price hikes in DPCO products.

Exhibit 3: Sales trend


Source: Company, Angel Research

OPM dips to 19.7%: On the operating front, the gross margin came in at 52.0% V/s an expected 48.3% and V/s 48.2% in the corresponding period of last year. The expansion in the gross margins came on the back of price hikes. The OPM came in at 19.7% V/s an expected 17.8% and V/s 15.7% in the corresponding period of last year.

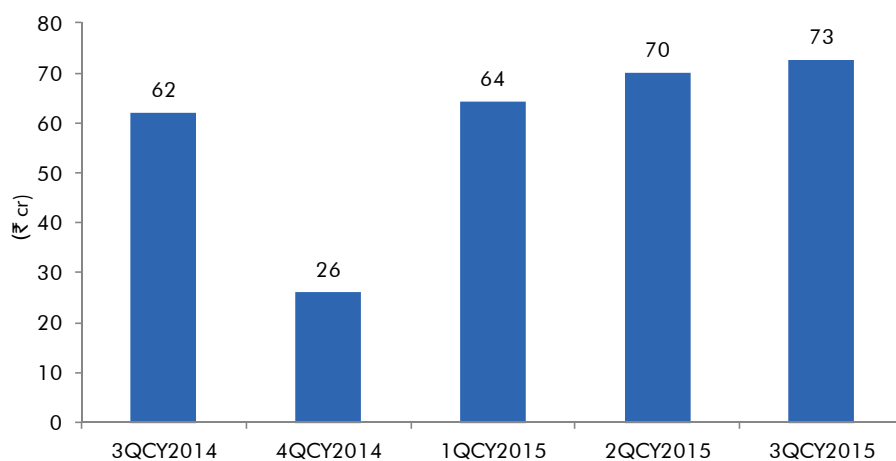
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line higher than estimate: The PAT came in at ₹72.5cr (V/s an expected ₹70.0cr), a yoy growth of 16.9%. The other income during the quarter came in at ₹42.4cr V/s ₹41.7cr in 3QCY2014, while tax as a % of PBT was at 40.7% V/s 34.0% in 3QCY2014.

Exhibit 5: Adj. net profit trend



Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Sanofi recorded revenue CAGR of 9.1% to ₹1,494cr over CY2006–12. The growth was impacted by a lower-than-expected growth in domestic formulations and loss of distribution rights of *Rabipur* vaccine. Going forward, to grow in line with the industry's average growth rate in the domestic segment, the company has rolled out a project - *Prayas*, an initiative to increase its penetration in rural areas. Under the project, the company would launch low-priced products in the anti-infective and NSAID therapeutic segments and increase its field force. The project is expected to provide incremental revenue of ₹500cr over the next five years.

Sanofi also plans to launch CVS and vaccine products in the domestic market post the acquisition of Shantha Biotech by its parent company. Further, during CY2011, the company acquired the nutraceutical business of Universal Medicare Pvt. Ltd, which led the company's foray into the nutraceutical business, thus aiding it in diversifying, and boosting overall growth of its domestic formulation business.

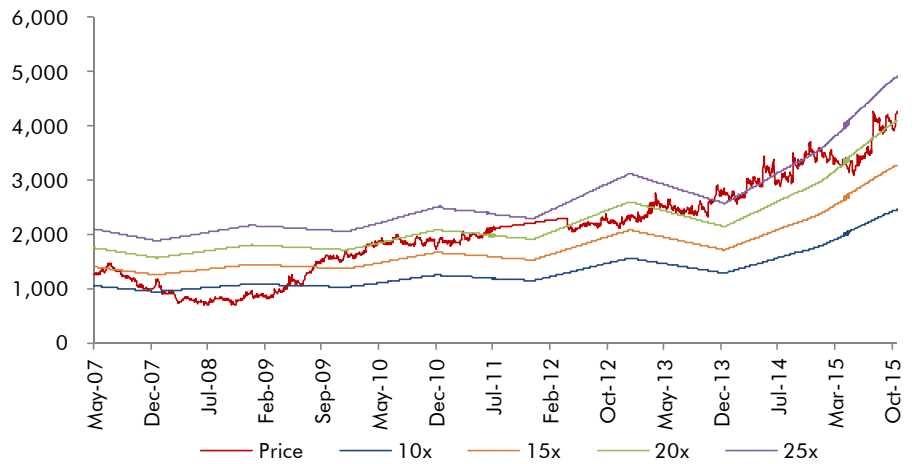
During 2HCY2014 the company's sales were impacted by the July 2014 National Pharmaceutical Pricing Authority (NPPA) order which has brought 80 formulations pertaining to 50 drugs under price control. This severely impacted the company as three of its major products came under price control. The company is estimated to suffer a value loss of ₹120cr on an annualized basis. However, on the positive side the government has revoked the order, which should aid a recovery in the domestic formulation sales of the company, going forward. We expect the company's net sales to log a 12.4% CAGR over CY2014–17, with domestic formulation sales expected to post a yoy growth of around 20.0% during the period.

Valuation: We expect net sales to post a 10.5% CAGR to ₹2,371cr and EPS to register a 33.1% CAGR to ₹151.5 over CY2014–16. At current levels, the stock is trading at 36.0x and 28.1x its CY2015E and CY2016E earnings, respectively. **Given the rich valuations, we recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

	CY2015E	CY2016E
Net sales growth (%)	11.1	13.9
Domestic sales growth (%)	20.0	15.0
Export sales growth (%)	6.0	10.0
Growth in employee expenses (%)	18.8	6.6
Operating margins (%)	17.4	20.8
Net profit growth (%)	38.2	28.2
Capex (₹ cr)	30.0	30.0

Source: Company, Angel Research

Exhibit 7: One-year forward P/E


Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2017E		FY15-17E		FY2017E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Neutral	664	-	-	27.8	4.0	19.7	26.2	31.5	31.8	
Aurobindo Pharma	Neutral	846	-	-	19.4	3.1	13.5	16.3	23.4	30.2	
Cadila Healthcare	Neutral	425	-	-	24.1	3.6	16.5	24.6	25.2	29.0	
Cipla	Neutral	684	-	-	22.4	3.2	16.1	24.6	18.0	17.5	
Dr Reddy's	Neutral	4,182	-	-	21.7	3.3	14.4	21.6	20.6	22.0	
Dishman Pharma	Neutral	346	-	-	16.0	1.5	7.5	20.4	11.7	11.7	
GSK Pharma*	Neutral	3,271	-	-	47.9	8.4	37.8	6.6	33.7	34.3	
Indoco Remedies	Neutral	333	-	-	21.5	2.5	13.7	31.4	20.1	21.1	
Ipca labs	Neutral	781	-	-	24.4	2.6	14.1	26.1	13.0	14.9	
Lupin	Neutral	1,946	-	-	27.4	4.7	17.5	9.7	27.9	23.4	
Sanofi India*	Neutral	4,262	-	-	28.1	3.6	17.4	33.1	27.9	25.5	
Sun Pharma	Neutral	905	-	-	33.7	6.0	19.6	8.4	15.8	16.6	

Source: Company, Angel Research

Company Background

Sanofi, a leading global pharmaceutical company, operates in India through four entities – Sanofi India, Sanofi-Synthelabo (India) Ltd, Sanofi Pasteur India Private Ltd and Shantha Biotechnics. Sanofi India focuses its activities on seven major therapeutic areas, namely – Cardiovascular diseases, Metabolic Disorders, Thrombosis, Oncology, Central Nervous System disorders, Internal Medicine and Vaccines. Predominately a domestic company, the company exports to semi-regulated markets; exports at ~₹500cr, contributed around 26% of sales in CY2014.

Profit & loss statement

Y/E Dec. (₹ cr)	CY2011	CY2012	CY2013	CY2014	CY2015E	CY2016E
Gross sales	1,259	1,534	1,746	1,915	2,131	2,427
Less: Excise duty	29	40	39	40	48	56
Net sales	1,230	1,494	1,707	1,875	2,082	2,371
Other operating income	86	91	102	103	103	103
Total operating income	1,315	1,585	1,809	1,978	2,185	2,474
% chg	15.0	20.5	14.1	9.3	10.5	13.2
Total expenditure	1,054	1,261	1,411	1,639	1,720	1,877
Net raw materials	619	735	820	974	947	1,055
Other mfg costs	61	74	82	93	106	114
Personnel	174	214	242	288	340	336
Other	199	238	267	283	326	372
EBITDA	176	233	296	236	362	494
% chg	22.9	32.2	27.0	7.3	8.3	9.3
(% of Net Sales)	14.3	15.6	17.3	12.6	17.4	20.8
Depreciation & amortisation	31	90	92	97	109	112
EBIT	145	143	203	140	253	382
% chg	18.2	(1.5)	42.4	5.7	6.7	7.7
(% of Net Sales)	11.8	9.6	11.9	10.2	11.2	12.2
Interest & other charges	0	1	0	-	-	-
Other income	54	30	58	64	100	100
(% of PBT)	19.0	11.4	15.9	18.6	19.6	20.6
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	284	262	363	307	456	585
% chg	21.8	(7.7)	38.7	3.8	4.8	5.8
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	284	262	363	307	456	585
Tax	92.8	85.0	123.3	109.0	182.2	234.0
(% of PBT)	32.7	32.4	33.9	35.6	40.0	40.0
PAT (reported)	191	177	240	198	273	351
Extra-ordinary items	(0)	(0)	(25)	(67)	-	-
PAT after MI (reported)	191	177	266	264	272	349
ADJ. PAT	191	177	240	197	272	349
% chg	23.3	(7.4)	35.4	(17.8)	38.2	28.2
(% of Net Sales)	15.5	11.8	15.6	14.1	13.1	14.7
Basic EPS (₹)	83	77	104	86	118	152
Fully Diluted EPS (₹)	83	77	104	86	118	152
% chg	23.3	(7.4)	35.4	(17.8)	38.2	28.2

Balance sheet

Y/E Dec (₹ cr)	CY2011	CY2012	CY2013	CY2014	CY2015E	CY2016E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,094	1,181	1,324	1,463	1,839	2,291
Shareholders funds	1,117	1,204	1,347	1,486	1,862	2,314
Long term provisions	20	19	25	32	32	32
Other long term liabilities	1	-	-	-	-	-
Total loans	-	-	-	-	-	-
Total liabilities	1,137	1,223	1,372	1,518	1,895	2,349
APPLICATION OF FUNDS						
Gross block	843	889	1,075	1,195	1,225	1,255
Less: Acc. depreciation	231	315	409	506	615	726
Net block	612	574	666	690	611	529
Goodwill	125	125	125	125	125	125
Capital Work-in-Progress	23	43	43	43	43	43
Long term loan and adv.	76	61	62	106	106	106
Investments	0.4	0.4	0.2	0.2	0.2	0.2
Current assets	667	827	947	1,263	1,670	2,290
Cash	234	429	264	469	718	1,206
Loans & advances	174	208	219	196	305	348
Other	327	191	464	598	646	736
Current liabilities	357	387	435	656	607	691
Net current assets	310	441	512	607	1,063	1,599
Deferred tax assets	(8)	(21)	(37)	(54)	(54)	(54)
Total assets	1,137	1,223	1,372	1,518	1,895	2,349

Cash flow statement

Y/E Dec. (₹ cr)	CY2011	CY2012	CY2013	CY2014	CY2015E	CY2016E
Profit before tax	282	285	291	292	293	282
Depreciation	90	92	97	109	112	90
(Inc)/Dec in Working Capital	(147)	236	(64)	207	48	(147)
Less: Other income	91	102	66	67	68	91
Direct taxes paid	93	91	93	94	95	93
Cash Flow from Operations	41	420	164	447	290	41
(Inc./)Dec.in Fixed Assets	(67)	(186)	(120)	(30)	(30)	(67)
(Inc./)Dec. in Investments	-	0	0	-	-	-
Other income	91	102	66	67	68	91
Cash Flow from Investing	24	(84)	41	42	43	24
Issue of Equity	-	-	-	-	-	-
Inc./{Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(88)	(104)	(104)	(104)	(104)	(88)
Others	218	(397)	102	(136)	259	218
Cash Flow from Financing	130	(501)	(1)	(240)	155	130
Inc./{Dec.) in Cash	195	(164)	204	249	488	195
Opening Cash balances	234	429	264	469	718	234
Closing Cash balances	429	264	469	718	1,206	429

Key ratios

Y/E Dec.	CY2011	CY2012	CY2013	CY2014	CY2015E	CY2016E
Valuation Ratio (x)						
P/E (on FDEPS)	51.4	55.4	40.9	49.8	36.0	28.1
P/CEPS	44.2	36.8	27.4	27.2	25.7	21.3
P/BV	8.8	8.2	7.3	6.6	5.3	4.2
EV/Sales	7.8	6.3	5.6	5.0	4.4	3.6
EV/EBITDA	54.4	40.4	32.3	39.5	25.1	17.4
Per Share Data (₹)						
EPS (Basic)	83.0	76.9	104.1	85.6	118.2	151.5
EPS (fully diluted)	83.0	76.9	104.1	85.6	118.2	151.5
Cash EPS	96.5	115.9	155.4	156.7	165.5	200.0
DPS	33.0	33.0	33.0	33.0	33.0	33.0
Book Value	484.9	522.9	584.8	645.2	808.4	1,004.9
Returns (%)						
RoCE (Pre-tax)	13.5	12.1	15.7	10.2	18.5	27.9
Angel ROIC (Pre-tax)	23.6	17.5	22.4	14.6	26.4	39.8
ROE	17.9	15.3	18.8	14.4	19.9	25.5
Turnover ratios (x)						
Inventory / Sales (days)	69	61	31	28	26	23
Receivables (days)	19	23	9	8	7	7
Payables (days)	48	44	24	21	20	18

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Disclosure of Interest Statement	Sanofi India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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